THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ITEM FOR INFORMATION

Received by the Regents
July 19, 2007

Subject: Alternative Asset Commitments

Background and Summary: Under a May 1994 Request for Action, the University may commit to follow-on investments in a new fund sponsored by a previously approved partnership provided the fund has the same investment strategy and core investment personnel as the prior fund.

Pursuant to that policy, this item reports on the University's follow-on investments with the previously approved two venture capital partnerships, one private equity partnership, and two real estate partnerships listed below.

Emergence Capital Partners II, L.P., a Silicon Valley based venture capital fund, provides growth capital to early and development stage technology-enabled services companies which take advantage of highly developed information technology platforms and network infrastructure to permit cost-effective delivery of services over the Internet, wireless, and broadband networks.

Emergence's primary investment focus is on companies that can deliver enterprise applications as web-based services or provide outsourced solutions to critical but non-core business processes. In addition to these Software-as-a-Service and Technology-Enabled Business Service investments, the fund may find opportunities in consumer related online subscription and transaction services.

This is the University's second investment in an Emergence venture fund. The University committed $15 million to Emergence II, L.P. in May 2007. The University committed $5 million to Emergence Capital Partners I, L.P. in August 2004.

KPCB China Fund, L.P., a China focused venture capital fund sponsored by Silicon Valley based Kleiner Perkins Caufield & Byers, expands KPCB's long-established strategy of assisting entrepreneurs and promoting innovation in high-tech growth industries to China. The KPCB China team is led by investment professionals Tina Ju, David Su, and Forrest Zhong from TDF Capital and Joe Zhou, formerly with Softbank Asia Infrastructure Fund. The University is an investor in TDF Capital China II, L.P., TDF Capital's prior China focused venture capital fund.

With offices in Beijing and Shanghai, the fund's investment focus is on early and expansion stage companies in the technology, Internet, media, wireless communication, consumer, healthcare, and greentech sectors. In conjunction with KPCB, the fund brings global resources to Chinese entrepreneurs that will be helpful in recruiting, business building, strategy, networking and financing matters.

This is the University's ninth commitment to KPCB sponsored funds. The University committed $5 million to KPCB China Fund, L.P. in April 2007. The University previously committed a total of $32.6 million to prior KPCB sponsored funds since 1992.

MSPE Asia III, L.P., a private equity fund with offices in Hong Kong, Seoul and New York, makes private equity investments in Asia. The focus markets are primarily China and South Korea, with opportunistic investments in Japan, Singapore, Hong Kong, Taiwan, and selected countries in Southeast Asia.

The fund invests in publicly listed or private mid-sized growth businesses where improved operating performance, rather than financial leverage, can lead to significant value creation. The investments may be either control or minority investments and focus on companies that are recognizable domestic brands, globally competitive low-cost providers, or beneficiaries of favorable changes in regulatory or operating environments. The fund invests in a variety of industry sectors, with an emphasis on consumer products, financial services, industrial products and other service-related businesses.

This is the University's second investment in a Morgan Stanley Private Equity Asia fund. The University committed $20 million to Morgan Stanley Private Equity Asia III, L.P. in May 2007. The University committed $20 million to Morgan Stanley Private Equity Asia II, L.P. in April 2005.

Shorenstein Realty Investors Nine REIT, a real estate fund sponsored by the San Francisco based Shorenstein Company, invests in office buildings and mixed-use projects with a significant office component. The Fund focuses on top-quality assets that by virtue of location, physical quality, amenities, tenant base or other outstanding features enjoy leasing advantages in their respective markets. Within this type of asset, Shorenstein targets those situations in which the firm can acquire a property at an attractive price and then add value to the investment by applying the firm's operating expertise to correct leasing, operating or physical issues that are impairing values. The General Partner believes that on a risk-adjusted basis, these types of assets, when well-bought and well-managed, present a compelling opportunity to participate in the upside of real estate markets with a significant reduction in downside exposure. Historically, trophy properties in top locations are most resilient when markets soften because the premier tenants will continue to want to operate in the best quality properties in the market.

This is the University's fourth investment with Shorenstein. The University committed $25 million to SRI Nine REIT in April 2007. The University previously committed a total of $65 million to prior Shorenstein sponsored funds.

Thor Urban Property Fund II, L.P., a real estate fund based in New York, acquires retail and mixed-use properties primarily in urban locations and creates value through re-tenanting, repositioning and actively managing the assets. The fund focuses on assets in under-retailed ethnic communities in major cities throughout the United States. Using the team's extensive retail expertise, Thor determines the needs of the surrounding population. The firm then takes advantage of its substantial network of retailers to identify those that will be successful in these urban communities.

Exit strategies are identified at the time of acquisition and Thor evaluates each asset continually to determine optimum disposition time and structure. Thor believes that premium disposition pricing can be achieved through a combination of single asset sales, portfolio sales, or the sale of the entire portfolio or a subset of the portfolio to a public company.

This is the University's second investment with Thor. The University committed $20 million to Thor Urban Property Fund II in April 2007. The University committed $20 million to a prior Thor sponsored fund.

Respectfully submitted,

Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

July 2007